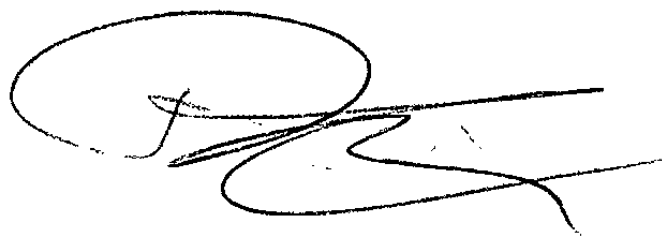


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I believe some but not  
all of Harvey's ideas are  
useful. What do you think?

A stylized handwritten signature, possibly reading "Harvey", written in dark ink.A handwritten signature, possibly reading "Dave", written in dark ink.

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25 February 1988

MEMORANDUM FOR: Acting Chairman, NIC  
Vice Chairman, NIC

FROM : Harry Cochran *HC*

SUBJECT : Comments on Draft NIE 41-2-86, Japan: Forces  
For Economic Change

1. This is a skillful summary of Japan's economic policy and prospects, but its value could be enhanced if it focused more directly on implications for the US. One has to read almost half way through the draft before reaching the judgment in para. 18 that there is no prospect of "rapid movement" toward major changes in Japan's traditional neomercantilist policy. Para. 20 declares that, although several measures to boost domestic demand will be implemented "eventually," there will be no major restructuring of the economy in the next five years. Para. 33 warns that despite reductions in the trade imbalance in the next few years, economic tensions will persist and the Japanese "will be as tough as ever in negotiations on trade barriers." Moreover, domestic pressures for protection will increase. *not in NIE but added*  
*all in NIE*

2. I would suggest summarizing these judgments affecting bilateral relations more prominently, directly, and earlier in the Key Judgments and text. For example, would the NIO and the drafter agree with George Packard's (SAIS) conclusion (in Foreign Affairs, Winter 1987-88) that the restructuring process will be "slow and painful, and the results will not greatly ameliorate US-Japanese trade relations within the next five years, when the danger of combustion is the greatest." Can a case be made that the next five years will be one of the most contentious and difficult periods in postwar relations, but that if costly confrontations can be avoided during this transition, forces now at work will eventually make trade issues less volatile and more manageable? A summary judgment along these lines would greatly help bring the estimate into sharper focus. *OK?*

3. The transition from para. 34 to para. 35 seems excessively abrupt. It is hardly necessary to say that the US and Japan "will continue to have many interests in common." Para. 35 is too brief and shallow to carry the intended message. Rather than observe that Japan's status as an economic superpower "will bring opportunities for cooperation," why not spell this anodyne comment out with concrete details? For example, the point is worth making again that Japan will not allow trade disputes to damage its enormous stake in protecting the value of its huge dollar investments and in averting a deep US recession that would diminish that value. As Packard observes, "the Japanese need a healthy American economy as much as Americans do, and most Japanese government and industry leaders are quick to recognize this fact both publicly and privately."

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4. Finally, it seems gratuitous to speak of "opportunities for cooperation" in view of the reality of a level of economic interdependence that is totally unprecedented for two sovereign nations. Surely the remarkable integration of the American and Japanese economies has become one of the dominant features of the contemporary international economic and financial system. The US and Japan together account for no less than 30 percent of world output, and their relationship has long since overshadowed the economic importance of the traditional American-West European link. I would suggest that para. 35 be recast to underscore Japan's fundamental interest in protecting its economic relationship with the US--a crucial source of leverage for US policy. The Japanese cannot dispense with US markets and strategic protection for at least another two decades. They have an abiding interest, therefore, in ensuring that the US retains the economic and political capacity to play its hegemonic role in the world trade system. This is one key reason why the Japanese are reorienting much of their trade with the US and Western Europe to Asia and moving intra-Asia commerce to the center of the world system. One authority predicts that by the year 2000, the yen will have replaced the dollar as the Asian region's dominant currency. This pattern of changing Japanese foreign trade is just as important as domestic trends and the end of the export boom.